GOVERNMENT OF INDIA
POWER
LOK SABHA

STARRED QUESTION NO:262
ANSWERED ON:01.08.2002
PULLING OUT OF FOREIGN FIRMS FROM POWER PROJECTS
BHARTRUHARI MAHTAB;SANAT KUMAR MANDAL

Will the Minister of POWER be pleased to state:

(a) whether attention of the Government has been drawn to the news item captioned `foreign firms pulling out of power projects` appearing in The Hindu dated July 8, 2002;

(b) if so, the facts reported therein;

(c) whether the Government propose to add another one lakh MW of power generating capacity to supply power on demand by 2012;

(d) if so, the details of the mega projects initially undertaken by the foreign companies, State-wise;

(e) the names of the foreign companies that have withdrawn along with the reasons therefor;

(f) the reaction of the Government thereto; and
(g) the steps taken by the Government to achieve the goal?

Answer

THE MINISTER OF POWER (SHRI SURESH PRABHU)

(a) to (g) : A Statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO PARTS (a) TO (g) OF STARRED QUESTION NO. 262 TO BE ANSWERED IN THE LOK SABHA ON 01.08.2002 REGARDING PULLING OUT OF FOREIGN FIRMS FROM POWER PROJECTS.

(a) : Yes Sir.

(b) & (e): As per available information, the details of foreign investors who have withdrawn from power projects, and reasons thereof, are given in the enclosed Annexure.

(c) & (g): According to the 16th Electric Power Survey brought out by the Central Electricity Authority an additional capacity of about 1,07,000MW is required to meet the demand of power by 2012 A.D. For the 10th Five Year Plan (2002-07), the target for capacity addition of around 41,000MW has been planned. The experience of the poor performance in capacity addition during the 9th Plan, was kept in view while fixing targets for the 10th Plan. During the 9th Plan, there was over dependence on capacity addition by the Independent Power Producers (IPP), which did not materialize as these projects could not attain financial closure on account of poor financial health of the State Electricity Boards (SEB). Hence, for the 10th Plan, 22,830 MW is expected from the Central Sector, approx. 11,150 MW from the State Sector and around 7120 MW from the Private Sector. A National Conference was held on the 8th and 9th of July, 2002 at New Delhi to ascertain whether the targets were realistic and whether they could be attained. This conference was attended by the State Power Secretaries and Chairmen of SEBs and in their presence, each listed project was reviewed and critical constraints were identified. After detailed deliberations, it was agreed that this target of 41,000 MW was realistic considering the fact that about 19,000 MW is already under construction and another 8500 MW has the requisite approvals. An encouraging factor is that the outlay for the Tenth Plan has been enhanced by 214% vis-a-vis the Ninth Plan Outlay. This would ensure that adequate funds would be available for the capacity addition programme.

The Government of India has signed Memorandum of Understanding(MOU)/Memorandum of Agreement(MOA) with twenty-two States. These reflect the joint commitment of the Center and the States to undertake reforms in a time bound manner. The State Government`s commitment in these MOUs includes setting up of the State Electricity Regulatory Commission, 100% metering of 11 KV feeders, effective energy audit, identification and elimination of power theft and attainment of commercial viability in distribution. Government of India has committed its support through additional allocation of power from central Generating Stations and financial assistance for strengthening of sub-transmission and distribution as well as for renovation and modernization of power plants. Government have launched the Accelerated Power Development and Reforms Programme(APDRP) to assist the States in improving their sub- transmission/distribution system in identified circles and to provide incentive grants linked to the bridging of the gap between cost of supply and average revenue per unit. Twelve State Electricity Regulatory Commissions have passed tariff orders, which reflect a trend towards tariff rationalization. In addition, measures for Energy Conservation, Demand Side Management,

Renovation and Modernisation, encouragement of captive power plants and reduction of transmission and distribution losses (including control and elimination of theft) are expected to further improve the availability of power. Besides, the proposed National Grid would eliminate the transmission hurdles which are faced in transmitting electricity from surplus areas like Eastern Region. The Draft Electricity Bill, 2001 proposes to allow open access to consumers in a phased manner as may be allowed by Regulatory Commission. The Regulatory Commissions may allow open access without eliminating cross subsidies by way of imposing a surcharge on transmission / wheeling on the consumers opting for open access. It is expected that with effective implementation of reforms, commercial viability would be achieved and the confidence of investors in power sector will improve.

(d) : Out of the various projects identified as mega power projects under the revised mega power policy announced in November, 1998, foreign investor has been identified only in regard to the Hirma project. As already stated in reply to (b) and (e) above, the foreign promoters of the project, M/s. Mirant Asia Pacific Ltd have announced their withdrawal from the project.

(f) : Inability of the State Electricity Boards to provide adequate payment security cover to the private sector power projects, (which is a requirement of the project developers and more particularly the financial institutions), has been one of the main reasons due to which the majority of private sector power projects could not achieve financial closures in spite of progressing well on other fronts. However, in order to ensure that required generation capacity addition takes place in the country, the Government has taken concrete steps outlined in above paras, which will ensure that the targets for additional generation capacity are met.

ANNEXURE REFEREED TO IN PARTS (b) & (e) OF THE STATEMENT LAID IN REPLY TO STARRED QUESTION NO. 262 TO BE ANSWERED IN THE LOK SABHA ON 01.08.2002 REGARDING PULLING OUT OF FOREIGN FIRMS FROM POWER PROJECT

(i) Maheshwar Hydel power project (10x40MW) of M/s Shree Maheshwar Hydel Power Corporation Ltd. (SMHPCL) in Madhya Pradesh is being promoted by a consortium led by M/s S. Kumars. The consortium partners M/s Bayerwerk View and M/s Ogden Energy, USA, have since exited from the project. SMHPCL have informed in August, 2001 that Ogden Energy was no longer associated with the project and that their agreement stood terminated. It was informed by SMHPCL that the exit of Ogden could be attributed to its own reason viz., internal restructuring and changed business focus. Moreover, Ogden had planned to bring in equity contribution at the end of the project construction, which was not acceptable to the Indian Financial Institutions. The Financial Institutions were also insisting for the corporate guarantee of Ogden Energy while Ogden wanted non-recourse financing, which was not acceptable to the lenders. The project is still being pursued by the original promoters.

(ii) M/s Cogentrix Energy Inc: In February, 2000, the company informed the Government of Karnataka and Government of India that they had transferred their interest in the Mangalore Power Company and the Mangalore Power Project to China Light (Mauritius) Ltd. with effect from 11th February, 2000. No reasons for the withdrawal were indicated by the company.

(iii) 420MW Bakreshwar Thermal project in West Bengal (units 4&5): The Government of West Bengal: informed that M/s Bakreshwar Power Generation Co. Ltd, which is a Joint Venture Company set up by the West Bengal Power Development Corporation, M/s DCL and M/s Ogden Energy Asia Pacific Ltd., for setting up the project, has been wound up and M/s Ogden Energy Asia Pacific have exited from the Joint Venture Company. The project is now being implemented as a State Sector project. The West Bengal State Electricity Board have informed that while the foreign company may have incurred some expenditure on project formulation, no investment has been made on the ground.

(iv) 1070MW Korba East Thermal Project: The promoters, M/s Daewoo Power (India) Ltd. gave termination notice to the Government of Madhya Pradesh on 14.8.2000 citing inability of the Madhya Pradesh Electricity Board to provide payment security. Madhya Pradesh State Electricity Board has informed that while the company has made some investments on acquisition of land, no other work has taken place on ground.

(v) In the case of the 6x660 MW Hirma Thermal Power Project in Orissa, which is being developed as a mega power project, the foreign promoters of the project, M/s. Mirant Asia Pacific Ltd have announced their withdrawal from the project stating that several key milestones for activities relating to payment security mechanism, Fuel Supply Agreement, Implementation Agreement and Transmission Services Agreement have not been met.

(vi) In the case of the 2x250MW Balagarh project in West Bengal, the project could not proceed due to poor financial health of the main promoter, i.e. Calcutta Electric Supply Company. On account of this, the co-promoter, M/s Mirant Corporation, has walked out of the project. The West Bengal State Electricity Board have informed that while the foreign company may have incurred some expenditure on project formulation, no investment has been made on the ground. The project is still being pursued by the main promoters.

(vii) The Maharashtra State Electricity Board (MSEB) informed during August 2000 that M/s Electricite de France, a French Power Company, had decided to pull out from the 1082MW Bhadrawati Thermal Plant in Maharashtra.

The following reasons were indicated for pulling out from the project;

(a) Inordinate delay in getting clearances from various authorities.

(b) A very high coal price sought by the coal supplier.

(c) Lack of proper commitment to escrow arrangements.